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INVESTMENT BUILDING AND LOAN.

REASONS WHY.

BY



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INVESTMENT BUILDING AND LOAN.

REASONS WHY. •F8

First Proposition.—The question: What are the fundamental sources of profit from which Building and Loan Associations derive their large earnings, and on which they rely to mature their stock and make the excellent investments claimed?

Second Proposition.—The question: Is not the profit-earning ability of Building and Loan Associations lessening?

Third Proposition.—The question: Why is it that some associations claim to pay larger per cent. of profit than others—though apparently no known reason manifests itself?

Fourth Proposition.—The question: Wherein lies the vital distinction between what are termed "Local Building and Loan Associations" and "National Building and Loan Associations?"

Fifth Proposition.—The question: What are the scientific possibilities of Building and Loan as circumscribed by the nature of the business?

Sixth Proposition.—The question: Is not the expense of the business of National Building and Loan of an extravagant character, and such as to preclude the practicability of legitimate profit?

Seventh Proposition.—The question: What is meant by "earnings," "surplus," "profit," "rate of gain," as applied to Building and Loan business?

Eighth Proposition.—The question: Wherein does Building and Loan differ in security as compared with Life Insurance and Banking?

First Question.—What are the fundamendal sources of profit from which Building and Loan Associations derive their large earnings, and on which they rely to mature their stock and make the excellent investments claimed?

There are five primary sources of profit:

1st—The interest and premium paid by each borrower for the use of the money borrowed.

2d—The transfer fees arising from members selling and transferring their stock.

3d—The fines which all members pay who are delinquent in their monthly payments.

4th—The contingent earnings which arise from withdrawals—such members receiving a fixed interest on the money in the loan fund—usually 6 per cent.—leaving the excess profit to the persistent members of their series.

5th—The unexpended portions of the “Expense Fund,”—the saving due to economy and careful management.

As affecting the profits to the individual shareholder, arising from these sources of earnings, there is also the factor of “compound interest.” This well known principal is a most potent source of profit. In Building and Loan the principal and all interest or profits are collected monthly from the members, and at once re-loaned, thereby compounding twelve times each year, which is twelve times as rapid as any other known investment compounds, and the effect upon the increased earnings in a period of ten years adds about 50 per cent. to the primary profits.

Second Question.—Is not the profit-earning ability of Building and Loan Associations lessened?

As to this proposition, I answer, No. The earnings of Building and Loan are not contingent upon legal rates of interest. These associations are exempt from

Q.M.C. 448.27.106.

the usury laws. They loan only to members, and all participate alike in the profits. The interest charged is usually fixed by the By-Laws, and the premium is either fixed by the rules of the associations or else it is determined from month to month by the auction plan—the highest bidder securing the money. The rate, then, is not subject to the general legal rates of interest, but is wholly subject to supply and demand. The bulk of the borrowers are salaried men and mechanics who use their monthly rental to pay the amount due each month, and by this method acquire their homes substantially from their rent money, and for this reason can afford to pay a higher rate, since whatever they manage to save from this source is a clear gain to them—just like finding the amount; besides, they are equal participants in the earnings of the association, and by deducting the amount they receive back in profits, so reduce the gross amount paid that the net interest is about the same it would cost to borrow in the open market, assuming they could comply with the rigid demands of the loan broker, which is not at all likely. The Loan Association can safely loan a higher per cent. of the valuation of the property, since the debt is paid by the month; thus gradually the security grows better as the months roll on, and thereby makes it a safe deal for the association; but for a straight loan covering a period of three, five or eight years, it would at once become undesirable, and hence unacceptable, to the loan broker. Even though the loan broker was willing to accept the loan, the borrower could not assume the debt from the fact that he earns his money, and is paid at least monthly and must be allowed to pay the debt monthly. This the association allows, because it receives a large monthly loan fund from all its members doing the same thing, and for this reason can again at once re-loan the amount paid, thereby keeping all the money loaned out—a thing the loan broker could not do, and hence must have the debt repaid in one payment.

QUESTION OF INTEREST.

Even if, at some future time, the Building and Loan earnings were lessened in obedience to a lessening rate

of interest, it would not afford grounds for any just discouragement. Is not the value of any other investment relative? and would you not expect to suffer from the same cause in any other use you might undertake to make of your money? In the case of Building and Loan, you should remember there are no taxes to pay by the investing shareholder, and this, in all other forms of investments, the tax collector will have pinched out a very material share — often times a third, and sometimes a half, of the gross interest or rental. Then, again, as a rule no individual can use small sums advantageously and cannot as a matter of easy practicability, compound interest, and should they succeed to secure yearly compound they would still lose the earning power of monthly compound interest, a most potent and profitable factor, being just twelve times as strong as yearly. Besides, there is no safe investment that will compare with Building and Loan, and hazardous investments no careful person will seek. Looking, then, at the Building and Loan investment from the standpoint that the future might present conditions to lower the earnings on account of cheap money in the general market, it yet follows that it will still maintain its present position and bearings to other investments under such new conditions should they ever become a reality.

FRANKLIN BEQUEST.

Even among corporations organized with more or less of a machine-like method, there is found to be a wide difference in the ability to earn compound interest. As illustrating this it is only necessary to cite one authentic fact, viz.: In the year 1787 Mr. Benjamin Franklin donated \$5,000 to the city of Boston, and \$5,000 to the city of Philadelphia, in trust to be loaned or invested constantly, interest and principal, as a growing fund, for a period of one hundred years. At the expiration of that time the trustees were empowered to make use of the entire capital in the interest of humanity, it being calculated by the donor that the sum of \$5,000 at compound interest for 100 years would provide each city with a bequest of \$1,696,500. Now in this calculation there was incorporated the common fallacy of supposing

that interest could be instantly collected without loss of time, and principal and added interest re-invested without waste or pause, whereas the fact is, the best managed Life Insurance Companies will lose one year in every ten, being time that the money fails to earn, lying idle while collected in from one borrower and reloaned; apply this to private individuals and the loss of time is very great. As a general rule Loan Associations doing business on the local plan lose much time, mainly from the fact they fail to acquaint the public with the fact that they have money to loan, preferring to do so rather than incur some expenses to hustle the business. The National Association, with its fixed expense fund, places its agents in the field, and by handling its money monthly never has idle money, keeping at all times the demand up to the supply, and thereby getting out of the money all it will earn at a given rate. This is a very powerful reason why the National Loan Association is the best known investment. It loses no time, as it loans monthly, and always through its agents in the field keeps the demand up to the supply, and usually ahead. However, in the results of the donated investments referred to, there was found not only that they had not been continuously invested, but that there had been even a very marked difference in the investment ability in the two bodies of trustees having them in charge, for while the Boston fund was so invested as to foot up the sum of \$320,000, the Philadelphia fund merely reached the sum of \$70,000, the total results actually reached being less than 11 per cent. of the amount anticipated. In this illustration is to be plainly seen the significant answer to the oft-put question—"In what respect has one association the advantage over another in the ability to earn profits."

COMPOUND INTEREST.

Again it may be said that compound interest as a productive factor or a general resultant of moneys invested, is never earned. That, in fact, it was scarcely known 100 years ago in financial transactions. That it has no recognition in law or contract possibility, and that as showing that it can only be obtained under such a sys-

tem as herein discussed, it is only necessary to state that all the money-changers and users in the world's history have never realized the value of \$1, considered at 6 per cent. yearly compound interest since the birth of Christ, because, according to an eminent actuary, the accrued value of just one such dollar would now be over *six quintillions of globes of solid gold, equal in bulk to our earth.* It still remains for some mathematician to cipher out the result of the \$1 as stated on monthly compound interest. Enough is stated, however, to satisfy the most critical of the wonderful earning power of compound interest, and the immense advantage it gives an investment employing it as an element of gain. Building and Loan so arranges its system that no borrower pays compound interest, but every investor receives it, because the earnings are paid monthly and reloaned to new borrowers.

Third Question.—Why is it that some associations claim to pay larger per cent. of profit than others, though apparently no known reason manifests itself?

This question is already partially answered in number two, wherein is shown the element of time as a vital factor to high profits in an investment that runs over a period of time. Another factor to be fully considered is that of rigid and economical management. It is in this factor that the solution must be found in saving time and keeping no idle money on hand. Whenever an association is keeping its money in the treasury idle it means profits are being lost, and the time of maturity of stock prolonged, and the rate of gain diminished, and if you would get the best it will require that you closely investigate the management of the particular association you may expect to join, and convince yourself that their record on this point is what it should be. If one association keeps its funds loaned out and another so manages its business as to always have some money idle; and again, if one keeps up a healthy demand for money, thereby creating a good competition in the sale of money to the highest bidder, and thereby secures adequate and uniform premiums and another lags in these particulars, you will in this answer find the reason why one pays a

larger per cent. of profit, though apparently no known reason manifests itself.

Fourth Question.—Where lies the vital distinction between what are termed “Local Building and Loan Associations” and “National Building and Loan Associations?”

The difference between the local and the national plan in Building and Loan is the same as the difference between the working and waiting method of doing business, or the retail and wholesale. All business in the present epoch of commercial pursuits must be pushed for all there is in it to cope with the prevailing competition. An association without a working corps of agents is like a wholesale house without its drummers. Not only is a business that waits for custom in the present condition of things dead, but it is likewise so far behind the demands of the times that its patrons are great losers. Such an association is so lessened in its profit-earning power that its customers must pay about 20 per cent. extra principal to reach similar amounts in an aggregate investment. The vital difference arises from the plan of operation. The local refuses to employ any one to hustle for business and acquaint the public with the merits of its plan, and the patrons pay as a penalty for this mistaken economy about 20 per cent. more principal to accomplish the same results. The National on the other hand creates a limited and fixed expense fund, and then employs agents to hustle for business and acquaint the public with the claims and merits of its plan, and reaps as a reward for its patrons increased profits, and saves fully 20 per cent. in original principal invested. It then follows from actual results that it does pay to spend a dollar. The expense fund is the strong distinction, as by it the National has the ability to let its light shine and reach the people, and thereby expand its usefulness and accomplish increased results by securing greater demands for its money. Supply and demand regulate profit.

Fifth Question.—What are the scientific possibilities of Building and Loan as circumscribed by the nature of the business?

The great fundamental principle underlying Building and Loan is supply and demand, based on fixed real estate values as its protection. Its possibilities are partially controlled by environments as the particular association may be situated in this respect. In this, as in all financial matters, much depends upon proper management. Its future is not affected so much by interest rates as by supply and demand. The gains partake more of the nature of a profit in business than a legal rate of interest, and are only affected as supply and demand regulate. If the proper ratio is maintained the results will always be satisfactory. The scientific possibilities will always follow the law of supply and demand, coupled with sound management, protected by proper legal safeguards to keep and maintain a reasonable state supervision over the acts of the various associations supplemented by the working plan with its fixed expense fund to push the business and get out of it the highest possibilities.

Sixth Question.—Is not the expense of National Building and Loan of an extravagant character, and such as to preclude the practicability of legitimate profit?

We answer no. Compared with Banking and Life Insurance and general commercial business it is conducted on less expense per dollar handled than any business in the field. The usual charge runs from three-fifths of 1 per cent. per annum of the par value of the stock to 1 per cent. Where is a business that will handle the equivalent of \$100 for ten years for \$6, or five years for \$3, while at the same time it produces a profit from three to four times as great, and reduces its losses to practically nothing, and in this respect it has no competitor, being absolutely without a peer. Compare this with the best managed Life Companies, where the expense on a similar basis runs from 2 per cent. per annum of the total funds to over 4 per cent, and some as high as 6 and 7 per cent. In banks all the profits are

used to defray expenses of either actual management or stock dividends, save the small amounts paid on time deposits, and hence from 7 to 8 per cent. per annum is used on a similar basis. In general commercial business it is hard to name a per cent., but suffice to say the expenses are the main out-go, and frequently eat up the whole concern.

In Building and Loan the case is entirely different, as the expense fund is fixed either by law or the by-laws of the association, and when the amount is expended the management is compelled to stop until further expense funds become available. The loan fund is held absolutely intact, made so by law and the by-laws of the associations, and all accumulations of interest, premium, fines, transfer fees, withdrawal gains, cancellations, and every profit from whatever source go to the loan fund, and not one penny can be used for expenses. All the profits go to the shareholders, but each shareholder pays his part of the expenses usually deducted from the dues and thereby every one knows the exact amount set aside for expenses. No depositor in a bank knows this nor can any patron of a life insurance company tell what part of his premium he pays for expenses. The method of Building and Loan is eminently the fairest in practice in financial institutions. It therefore follows that the expense fund of the National Association is not extravagant, but is the motive power in the hands of the management to maintain the highest possible results that can be made out of money at given rates of profits.

Seventh Question.—What is meant by Earnings, Surplus, Profit, and Rate of Gain, as applied to Building and Loan business?

The "Earnings" in Building and Loan are the accumulations arising from interest and premium. "Surplus" is the total gains arising from all sources of accumulations. "Profit" is the amount made over and above the total dues collected. The "Rate of Gain" is the per cent. of accumulation per annum on the Loan Fund, and is derived by taking the total amount of all accumulations for the year and compare with the average

amount of money on interest for the year and the per cent. thus deducted will be the rate of gain for such year.

Eighth Question.—Wherein does Building and Loan differ in security as compared with Life Insurance and Banking?

The laws governing Building and Loan Associations require that only first mortgage real estate security can be accepted for loans. The property is carefully appraised by experts in the business, and a sum loaned not to exceed fifty to sixty per cent. of the actual value of the property appraised upon fixed rules of value by experienced men. This is the safest security the market affords since the examination of the title to the security offered is very searching, an abstract is required from the United States Government brought down to the time of borrowing and must include every conveyance inclusive of the association's mortgage, all before the money is paid, and it must show a clear title. Real estate is the foundation of all security, upon it rest all values, the fluctuations are reduced to a minimum. There is no speculation in Building and Loan. The money is loaned on a safe basis, by law the associations are prohibited to own real estate other than what they happen to secure by reason of the foreclosure of mortgages and when so acquired must be disposed of within a reasonable time. The associations are entirely barred from speculating in real estate, and in this wise provision is to be found one of the strongest reasons why a Building and Loan investment is absolutely safe, in fact, the very safest that it is possible to devise, and at the same time it yields from three to four times the usual profit on an investment. Upon real estate all the world is dependent for subsistence, and so long as the human race remains with its present wants and requirements real estate will continue to be the basis of all values. It is the only security that anarchy cannot destroy. Kingdoms, empires, and republics may fall, but real estate through it all is the only security that can weather the storm, and as soon as tranquility and peace take the place of anarchy and war appear in its normal condition

not much the worse for the eruption. Compare an investment backed by security such as this, with one contingent upon stocks and bonds that derive their value either from the fiat power of the government or are a secondary out-crop of real estate, *i. e.*, real estate security by proxy with the multitude of schemes, chances and abnormal environments that so readily attach to themselves and so frequently are the causes of rendering them practically valueless, and with all these chances on security only make from one-third to one-fourth of the profit Building and Loan makes based on real estate security. Who, understanding the matter in its actual significance would take such desperate chances with such a fearful reduction in profit? Nay, Building and Loan is practically without a peer, both in safety and high profit. Who would exchange it for an investment in life insurance that loans from sixty to seventy-five per cent. of its funds on stocks and bonds, or banks where no real estate is taken but only commercial paper contingent whether certain business men succeed in business? Building and Loan is a certainty, tested by centuries of time to gain experience, with its numerous millions of dollars invested, and its thousands of happy beneficiaries to send forth the gladsome testimony of real benefits actually received. History tells the story of happy fire-sides and contented homes built by its aid and fostered by friendly governments. Millions there be who have trained in the wholesome school that the best citizen is the one who owns his home—the best patriotism is taught where contentment reigns supreme and the family rests in the secure hope of better days.

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